

The complaint

Ms L is unhappy that despite Lloyds Bank PLC (“Lloyds”) knowing about her financial difficulties and vulnerabilities it failed to take any action or support her regarding the repayment of her overdraft for two years. Ms L is also unhappy with the default recorded on her credit file.

What happened

Ms L had an account with an overdraft facility with Lloyds. In October 2019 Ms L’s circumstances changed for the worse both financially and physically. Ms L contacted Lloyds about this in October and December 2019. To assist Ms L Lloyds but a hold on all fees and charges for her overdraft and refunded her £100. Lloyds also recommended Ms L get in touch with a debt management charity to obtain advice or assistance.

Following this despite Lloyds being informed of her circumstances it allowed Ms L to continue to spend on her overdraft – albeit interest free - and failed to have any contact with her for two years or offer her a repayment plan for her overdraft.

Lloyds sent Ms L a formal demand for the repayment of her overdraft in September 2022 giving her 30 days to settle the balance. Within the letter it asks Ms L to call it if she requires a repayment plan. Ms L’s account was then defaulted in October 2022.

Ms L complained to Lloyds about this. Lloyds says during the period in question it had not been in touch with Ms L because it had been managing accounts differently during the pandemic and it was up to Ms L to contact it if she required help repaying her overdraft. But Lloyds having previously upheld Ms L’s complaint regarding the overdraft lending agreed to backdate the default to when the overdraft was agreed in July 2019.

As Ms L was dis-satisfied with this she brought her complaint to this service – she wants the default removed. One of our adjudicators looked into Ms L’s concerns and reached the conclusion that even if a repayment plan had been put in place this still would’ve affected Ms L’s credit file and that it was unlikely given Ms L’s financial circumstances that she would have been able to pay off the debt within a reasonable period of time. So on that basis defaulting the account would be in-line with what we’d expect.

But they felt that Lloyds shouldn’t have left Ms L for so long without contacting her to assess her financial situation and discuss repayment plans in order to reduce the overdraft limit or default the account earlier than it did. Failure to do this resulted in Ms L’s account remaining overdrawn for an extended period of time and her financial situation didn’t improve. They thought Lloyds should compensate Miss L £200 for the distress and inconvenience caused by Lloyds inaction.

Lloyds accepted our adjudicators recommendations, but Ms L didn’t. Ms L wants to be compensated further and the default removed from her credit file.

So the complaint was passed to an ombudsman for a final decision.

What I've decided – and why

I've considered all the available evidence and arguments to decide what's fair and reasonable in the circumstances of this complaint.

I hope that Ms L won't take it as a discourtesy that I've condensed her complaint in the way that I have. Ours is an informal dispute resolution service, and I've concentrated on what I consider to be the crux of the complaint. Our rules allow me to do that.

Having considered everything provided, I've decided not to uphold Ms L's complaint.

My role is to look at the problems Ms L has experienced and see if Lloyds has done anything wrong. If it has, I would seek – if possible - to put Ms L back in the position she would've been in if the mistakes hadn't happened. And I may award modest compensation that I think is fair and reasonable.

Ms L's main complaint point is regarding the time it took Lloyds to take action on her account following her informing it of her financial difficulties. Ms L is also unhappy at the default recorded on her credit file. So starting with the second part of her complaint the question I have to ask is whether Lloyds did anything wrong in reporting a default on her account?

Lloyds has a duty to make sure the information it reports on its customers affairs to the credit reference agencies it subscribes to is factually accurate. Lloyds defaulted Ms L's account in October 2022 but following Lloyds upholding Ms L's complaint from when it approved an overdraft for her in July 2019, it agreed to backdate the default to this point.

While technically Ms L's account wasn't in trouble or defaulted at this point. Ms L's complaint was that the overdraft lending was unaffordable for her and should never have been approved and was upheld by Lloyds. I haven't seen any evidence Ms L would've been in a position to pay her overdraft back within a reasonable period of time. Indeed, in Ms L's own words her circumstances were so bad she could not realistically be able to maintain payments of any kind following 2019 events – and since then her circumstances have only gotten worse.

So I think backdating the default to when the lending was agreed is a fair reflection of what would have happened had Lloyds taken action on the account sooner and not agreed the overdraft lending. And I don't agree that Lloyds should have the default removed. The whole point of reporting on how customers manage their financial affairs to ensure information is available to lenders so they can make informed lending decisions and avoid lending irresponsibly. In any case by having the default backdated Ms L will benefit from the default falling off her credit file earlier than it originally would have. So I'm not going to ask Lloyds to remove the default from Ms L's credit file.

Coming back to Ms L first complaint point regarding the length of time Lloyds took before taking action on her overdraft - I'm in agreement with our adjudicator here, that £200 compensation for the distress and inconvenience caused is a fair way to settle this complaint.

I agree Lloyds should've acted sooner especially considering Ms L had informed it of her circumstances. But sometimes mistakes do happen, and as we all know 2020 was a challenging time for both customers and banks during the pandemic. I also note that during this period Ms L benefitted from interest free credit. Ultimately Ms L has to take some responsibility for her actions – she chose to continue spending on the account and she

herself could've contacted Lloyds about setting up a repayment plan or having the overdraft removed.

So in these circumstances I think the £200 Lloyds has agreed to pay Ms L is a fair way to settle her complaint and I'm not persuaded any further compensation is going to make a material difference to what happened or to Ms L's circumstances so I'm not going to ask Lloyds do anything more.

My final decision

For the reasons I've explained, I think that what Lloyds Bank PLC has already agreed to do for Ms L is a fair way to settle her complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Ms L to accept or reject my decision before 20 June 2023.

Caroline Davies
Ombudsman